



Why More AUM and Top-line Revenue Can Lead to Lower Profit Margins

• • • • • On average, 20% of households produce 75% of a firm's revenue. However, every household and account incurs an operational cost burden. Utilizing an outsourced trading partner can reduce marginal costs and improve profitability.*

Keeping an Eye on Your Top Line

An RIA's size and growth can be measured in a number of ways: total assets under management (AUM), number of advisors, number of clients or accounts, or number of employees. While AUM indicates top line growth, other cost drivers can eat into an RIA's margins and kill their profitability.

When the number of clients or accounts grows, advisors are often surprised to find recurring and maintenance trades take up an enormous amount of time, making things less scalable than it would seem on the surface. From our experience those recurring trades make up between 70-80% of all trading volume.*

Apply this dynamic to today's market. AUM may be down though you may be adding clients and accounts – you're still actually growing and should be proud of your success. Every new client and new account opened brings about additional operational burdens, as well as the potential for operational costs to increase. As your trading volume grows, your overhead is growing, your revenue is shrinking, and your margins are getting tighter. There has to be a solution for scaling your trading so that client and account growth continues to lead to greater profitability. That is where leveraging a TAMP can make all the difference.

More Clients Doesn't Mean Better Margins

Every new client, regardless of number of assets, comes with a set of administrative tasks, including paperwork, investment proposals, account opening, and asset transfers. Many of these can be and are largely automated, saving firms time and resources. Once onboarded, though, ongoing administrative operations like billing, reporting, and especially trading aren't always so streamlined.

For an average RIA (between \$50M and \$2B in AUM), trade type volumes are heavily weighted toward recurring maintenance trades – ongoing contributions and distributions –



and far less so toward new investments, where a client is investing in a brand new allocation or changing their current allocation.

In general, new investments, which require thorough administrative oversight and attention, make up about 20-30% of an RIA's trade volume, while ongoing or one-off maintenance trades, which are far more conducive to automation, make up 70-80%.*

What are the trade request types?

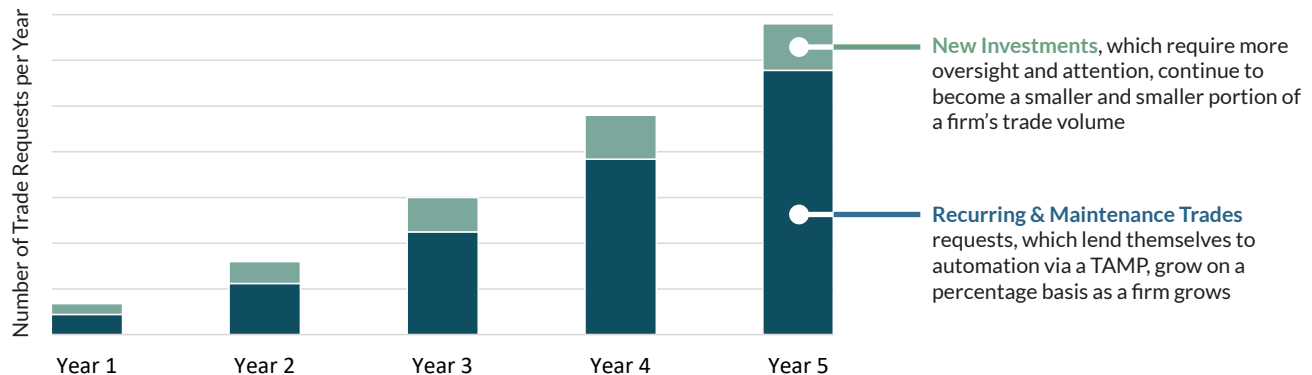
- **New Investments** can be a brand-new investment into a model portfolio or a change in an existing client's model portfolio(s)
- **Recurring & Maintenance Trades** can include ongoing injections (contributions), dollar cost averaging (standing instructions), systematic withdrawals (distributions), one-off client contributions (end of year bonus), or one-off client distributions (purchase a house)

Assuming a firm's number of clients and accounts continues to grow, the number of new investments, recurring requests, and maintenance trades will also continue to increase. On a percentage basis, the volume of recurring and maintenance trades will outpace new investments, meaning new investments will become a smaller and smaller percentage of total volume.

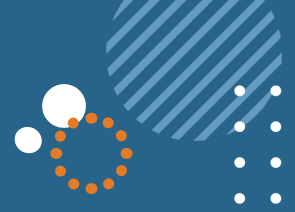
By manually executing 100% of trading tasks, firms are throwing away valuable resources 70-80% of the time. That's costly in a bull market, but profitably catastrophic in a down market.

Trade Request Types Change as a Firm Grows*

By outsourcing the automated recurring and maintenance trade requests via a TAMP, a firm can reduce their operational burden and achieve more consistent financial statements, even in a down market.



For illustrative purposes only. Illustration assumes increasing number of total accounts each year. Trade Request Types does not consider model allocation updates. Each advisor has its own unique circumstances which affects their trading volume and patterns.



Aligning Revenue with Operational Expenses

As firms add new clients and accounts, manually calculating, submitting, and reconciling trades will become operationally impossible without adding costly resources, which spells trouble for a firm's bottom line when markets are down.

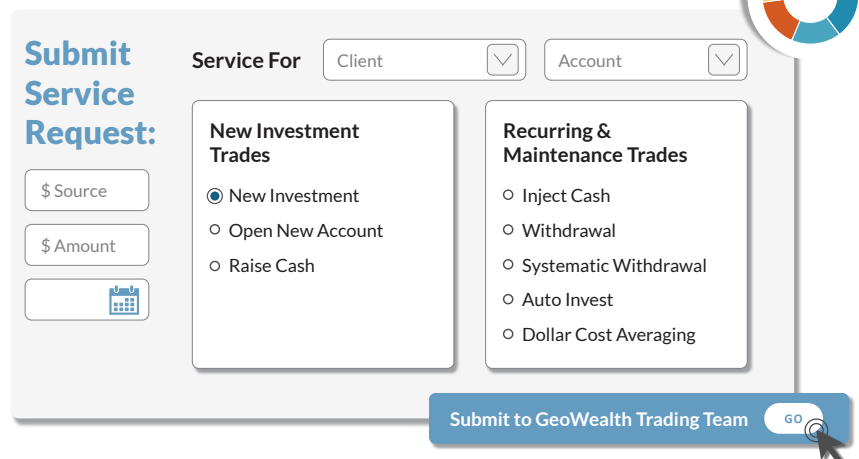
A more cost-effective, efficient, and sustainable way to service those 70-80% of trades that don't require manual oversight is to leverage an outsourced trading partner.

Leaning out the middle and back office infrastructure with an automated, outsourced solution eliminates the need to add salaries and benefits to the list of fixed costs, and reduces the operational trading burden to simple service requests that are then executed on behalf of the firm. It also positions operational costs to fluctuate in the same way revenue does, which can lead to healthier income statements, allow for more consistent financial ratios in all market cycles, and mitigate a firm's key person risk in the event of employee turnover – all of which are critical elements for maximizing a firm's overall value.

GeoWealth's team of trading experts handles trading implementation and monitoring through a recently enhanced, state-of-the-art Service Center that allows users to view the real-time status of tasks such as opening new accounts, new investments, raising cash, trade holds, liquidations, and more.

For more information about how GeoWealth's outsourced trading solution can help your firm reduce fixed costs while maintaining exceptional client service, click [here](#).

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Want to see our platform in action?

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